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BRITISH OVERSEA INVESTMENTS, THEIR GROWTH AND IMPORTANCE

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In the great European struggle, it may well be that the financial resources of Great Britain are destined to play a decisive part. The magnitude of the economic efforts which have been put forth by the British people is generally recognized. It may be recalled that within two years, means have been discovered to organize and fully equip a new army numbering millions of men; while at the same time the foundations of British power at sea have been greatly strengthened; and in addition it has been found possible to place at the disposal of the Allied governments gigantic sums for the purchase of munitions and warlike stores. An official estimate puts the amount of loans and advances by Great Britain to the Allies at no less than £1,500,000 daily on an average during the current financial year. Who can doubt that this financial assistance has been of inestimable service to the Allied cause? It is clear, for example, that the recovery of Russia after her prolonged misfortunes in the summer of 1915 was greatly facilitated by British assistance in the provision of military equipment. Again, it is largely British finance that has enabled the Belgian and Serbian armies to remain in the field as an effective military force.

GREAT BRITAIN'S AID TO HER ALLIES

The financial assistance that Great Britain has rendered to the Allied governments, has largely taken the form of paying for their external purchases. It is true indeed that vast quantities of munitions and equipment have been manufactured in the United Kingdom and exported to France, Russia and other Allied countries at the cost of the British government. On the other hand, the Allied governments have desired to obtain large quantities of ammunition, arms and supplies in other countries, *e. g.*, in America or in Japan, and have in many cases called upon Great Britain to meet the cost of these purchases. This has been one of the most difficult problems which British finance has had to meet. France and Russia

have, it is true, obtained loans in America and elsewhere, and to that extent the financing of purchases which they were themselves unable to pay for at the moment has been shifted onto shoulders other than those of the British government. It has, however, rested with the British government to finance a very great amount of the foreign purchases made by the Allied governments. Great Britain has been in a position to do this largely in consequence of the enormous quantities of capital which she has loaned to the citizens and governments of foreign countries, or invested in British companies carrying on business abroad, in years gone by. She has been able to call in foreign credits and maturing obligations and to realize by sale or by using them as *collateral* for loans, vast amounts of American and other securities which have been accumulated in time of peace.

Never has the magnitude of the financial pull which London has become able to exercise over the rest of the world been so clearly manifested as during the present upheaval. The mere threat of war was sufficient to cause all the foreign exchanges to move violently in favor of London, and the machinery of payments broke down because a crowd of foreign borrowers was trying to transmit money to London in payment of obligations falling due, and scarcely anybody was trying to transmit money the other way. The vast purchases of stores and munitions which had to be paid for, both on account of the British war services and on behalf of the Allies, coupled with a great falling off in the export trade from the United Kingdom, caused the foreign exchanges to move gradually against Great Britain soon after the outbreak of war. But even after two years of war, during which hundreds of millions sterling have been withdrawn or borrowed from abroad and lent to the Allies, the foreign exchanges on London are much nearer to the normal than are the exchanges of any other belligerent country. This is a clear testimony to the substance and credit of the British nation. The task of finding so many millions to make payments abroad has, however, proved no easy one. The British government has had to act boldly and drastically, especially in connection with the schemes for mobilizing American and other foreign securities. On the whole, however, it is probable that the limits of the Allied purchases abroad have hitherto been fixed rather by shortage in the supply of goods and equipment of the kinds required than by inability to foot the bill.

This rough estimate of the value of British foreign investments to the British nation, and to the Allied cause generally, during the present war, is given by way of introduction to what is the main purpose of this article, namely a discussion of the nature of British investments¹ prior to the war, of their growth, distribution and extent.

EARLY BRITISH INVESTMENTS

British foreign investments have been built up gradually and somewhat unostentatiously during a century past. It is hard to fix a date at which foreign investment began, for traces may be found in the sixteenth and seventeenth centuries and even earlier. The sums involved, however, were very small according to modern notions, and the same was true even in the eighteenth century. A considerable capital was indeed represented in the East India Company, and investment in the West Indian plantations and in the American colonies attained a certain importance. It appears probable, however, that during the eighteenth century Great Britain was on balance a debtor rather than a creditor country. The demand for capital which accompanied the industrial revolution, and the large government borrowings necessitated by prolonged wars, attracted to Great Britain a considerable amount of Dutch capital for investment in the national debt, in Bank of England stock, and in other enterprises.

The commencement of a rapid development of British foreign investments may be dated at the year 1815. During the Napoleonic wars, very little had been done in the direction of extending foreign investments. Accumulations of capital were absorbed in financing the war; in paying subsidies, amounting altogether to some £46,-000,000 in cash, exclusive of a large amount supplied in kind, to continental allies; and to some extent in industrial development at home. When the war stopped, surplus energy found vent in a marked extension of British investments abroad and a reduction of foreign investments in Great Britain. Large loans were made to impoverished continental governments, while considerable foreign holdings of British stocks were bought back from Dutchmen and others. A big boom, culminating in 1825, was characterized by speculation in every kind of foreign venture, conspicuous among them being South American mines and South American government

¹ A fuller account is given in my book, *The Export of Capital*. (Constable) 1914.

loans. During this period, too, there was apparently some investment in United States bonds; and at a somewhat later date substantial amounts of American canal, state and railway bonds began to be bought by British investors. The advent of the railway indeed opened up a new era to the investor, and from the '30's onwards large and increasing sums were placed by British investors in American railways. Some companies, indeed, were controlled from the beginning by British capital. Rails and materials were to a large extent sent from Great Britain, payment being made in bonds. In Europe, British capital also became actively engaged in the establishment of manufacturing industries, and later, in construction of railways, many of the Belgian and French lines being largely financed in London.

These two fields of investment, the United States and Europe, took for a time the great bulk of British capital invested abroad. Other outlets, however, gradually increased in importance. Investment on the continent of Europe was on occasions checked by political considerations, notably by the disturbances of 1848; and at a later date the growing wealth of France and other continental countries led British investors to seek more profitable openings for their capital elsewhere. America continued to provide attractive openings for British capital, although the amount invested fluctuated according to industrial and commercial circumstances from year to year, and the outbreak of the Civil War gave a set back to investment from which it took some years to recover. The British colonies, including Canada, Australia and India, began to attract more of the investor's attention, and at a somewhat later date South America, South Africa and the Far East became prominent as fields for investment.

VARIATIONS IN THE AMOUNT AND NATURE OF INVESTMENTS

Capital flowed out, on the whole in increasing quantities, in spite of great variations from year to year. Scarcely ever did a year pass, without some addition being made to the quantity of British investments abroad. One of the few exceptions was during the early '70's. For two or three years British holdings of capital abroad appear to have been actually diminished, by withdrawal of capital. This was during the period of depression which followed the boom of 1872-3. That boom had been preceded and

accompanied by vast issues of foreign government loans and of all kinds of other bonds and shares on the London market. During the world-wide depression which ensued, numerous governments defaulted in their interest payments, and railway companies went into the hands of receivers. Confidence in foreign investments was therefore for some years shaken, and investors sought openings for their money at home rather than abroad.

In the early '80's conditions again became favorable for investment. The fields which came perhaps most prominently into favor were Australia, and during the later part of the decade South America. The securities of railways in the United States were also readily absorbed, as they had been during each period of expansion since the beginning of the railway era. In Canada, this was the time of the construction of the Canadian Pacific Railway. In South Africa, the gold and diamond discoveries of 1884-5 resulted in the flotation of hundreds of mining companies. The boom, however, was accompanied by a good deal of injudicious speculation, and culminated during the early '90's in a series of crises in various parts of the world which checked the export of capital for a number of years. A collapse in Argentina in 1890-1 was followed by a slump in South African mining shares and paralysis in Australia. The business position in the United States also became very unsatisfactory, largely as a result of the uncertainties connected with the free silver agitation; and many railways went into the hands of receivers. Consequently, the '90's were a period during which comparatively little British capital flowed abroad. There was, indeed, a not unimportant movement to withdraw capital from America by selling bonds held in England back to New York. This, however, was only temporary; for at a later date the movement of British capital to America was resumed, though the flow in that direction became smaller than before relatively to the flow in other directions.

The export of British capital showed signs of recovery in the late '90's, but the movement was stopped short by the South African War, which absorbed much capital that would otherwise have been available for investment. Two or three years after the close of the war, however, the outflow of capital began rapidly to increase, and the volume of investment soon attained unprecedented proportions.

RAPID GROWTH IN THE PRESENT CENTURY

The vast extent of the export of capital during the opening years of the present century is indicated by the following figures of new capital issues for investment in the colonies and abroad compiled from tables published in the *Economist*:

	£		£
1901.....	27,907,000	1908.....	142,152,000
1902.....	57,126,000	1909.....	163,675,000
1903.....	63,591,000	1910.....	207,143,000
1904.....	72,925,000	1911.....	165,614,000
1905.....	120,497,000	1912.....	165,514,000
1906.....	81,906,000	1913.....	160,586,000
1907.....	90,560,000		

These figures cannot be taken as an exact measure of the export of capital, since there is a large amount of private investment abroad, and securities are continually being bought from abroad and sold abroad. Nevertheless, the figures sufficiently indicate the vastness of the outflow of British capital for some years before the present war.

It is of interest to analyze the statistics of capital issues according to countries of destination. This has been done in the *Economist* for a few years back, and the figures are here reproduced.

It will be seen that the new issues for investment in foreign countries have been, on the whole, somewhat larger than the issues for investment in British possessions. The most prominent individual country, however, has almost without exception been Canada. The United States has followed next in order of importance, and behind have come Argentina, Australasia and Brazil. Less capital was raised for India and Ceylon during the second three years than during the first three; but for Russia, on the other hand, more was raised in 1911-3 than in 1908-10.

THE AGGREGATE INVESTMENT AND ITS GEOGRAPHICAL DISTRIBUTION

The amount and geographical distribution of the aggregate capital publicly invested by British citizens in the colonies and in foreign countries are estimated by Sir George Paish² to have been as follows, at the end of December, 1913:

² See *The Statist* of February 14, 1914.

DESTINATION OF NEW CAPITAL PUBLICLY ISSUED

	Amounts in £1,000's					
	1908	1909	1910	1911	1912	1913
<i>British Possessions</i>						
India and Ceylon	13,146	15,336	17,992	5,171	3,708	3,824
South Africa	6,210	11,292	3,379	4,387	3,863	6,295
Canada	27,827	26,814	36,882	41,215	46,983	44,119
Australasia	4,028	11,380	13,385	3,333	13,462	18,629
Other British Pos- sessions	7,439	9,936	20,740	10,889	4,626	3,271
Total British Pos- sessions	58,650	74,758	92,378	64,995	72,642	76,138
<i>Foreign Countries</i>						
Russia	3,810	9,472	3,919	5,208	10,490	8,956
Finland	.	2,328	143	970	.	..
Denmark	2,121	488	1,089	.	2,425	.
Sweden	2,940	881	.	200	.	485
Norway	.	381	50	3,009	633	2,402
United States	21,472	15,905	39,590	21,314	23,635	18,746
Brazil	12,992	9,219	11,814	19,211	14,353	15,093
Argentina	15,013	21,738	22,865	16,677	20,110	11,990
Chile	1,299	4,098	4,685	8,271	2,252	2,699
Mexico	8,113	9,110	5,087	2,650	4,086	10,642
Central America	15	1,592	35	291	1,017	415
Other S. American Republics	4,226	2,616	3,141	2,414	100	525
China	5,031	740	1,610	7,434	5,950	6,883
Japan	2,920	4,723	.	.	3,231	..
Austria Hungary			4,098	1,654	40	108
Bulgaria			3,604	216
Greece			1,572	687	35	..
France			900	245	692	..
Turkey			1,431	300
Germany and Pos- sessions	3,550	5,626	794	223	176	..
Dutch East Indies			4,383	568	153	1,498
Cuba			1,916	6,501	838	891
Philippine Islands			404	713
Other Foreign Countries			1,635	2,576	2,656	2,403
Total Foreign Countries	83,502	88,917	114,765	100,619	92,872	84,449
Total British Pos- sessions and For- ign Countries	142,152	163,675	207,143	165,614	165,514	160,587

INDIA AND COLONIES	£
Canada and Newfoundland.....	514,870,000
Australia.....	332,112,000
New Zealand.....	84,334,000
South Africa.....	370,192,000
West Africa.....	37,305,000
India and Ceylon.....	378,776,000
Straits Settlements.....	27,293,000
Hong Kong.....	3,104,000
British North Borneo.....	5,820,000
Other Colonies.....	26,189,000
 Total India and Colonies.....	 1,779,995,000
FOREIGN COUNTRIES	£
United States.....	754,617,000
Cuba.....	33,075,000
Philippines.....	8,217,000
Argentina.....	319,565,000
Brazil.....	147,565,000
Mexico.....	99,019,000
Chile.....	61,143,000
Uruguay.....	36,124,000
Peru.....	34,173,000
Miscellaneous American.....	25,538,000
Russia.....	66,627,000
Egypt.....	44,912,000
Spain.....	19,057,000
Turkey.....	18,696,000
Italy.....	12,440,000
Portugal.....	8,136,000
France.....	8,020,000
Germany.....	6,364,000
Miscellaneous European.....	54,580,000
Japan.....	62,816,000
China.....	43,883,000
Miscellaneous Foreign.....	69,697,000
 Total Foreign.....	 1,934,264,000
 Grand Total.....	 3,714,259,000

This total does not include a large amount of capital privately invested abroad, and Sir George Paish estimates that, were this added, the total British investments in the colonies and abroad would amount to £4,000,000,000. While it must be remembered

that capital publicly subscribed in London may, and to a considerable extent does, actually belong to foreigners, and Sir George Paish's estimate to that extent possibly overstated the amount of British investments, at the end of 1913, it is probable that by the end of July, 1914, a further £100,000,000 had been added to the amount of British investments, whatever the figures might have been at the end of 1913. The annual income accruing from these investments at the time of the outbreak of war can hardly therefore have been very far short of £200,000,000 per annum. This income is derived in the main from railway bonds and stocks, and from foreign and colonial government securities. Sir George Paish estimates that of the capital publicly invested in the colonies and abroad no less than £1,521,014,000 was invested in railways and £959,523,000 in government securities. The principal other items are mines £272,789,000; finance, land and investment companies £244,187,000; municipal loans £147,547,000; commercial and industrial securities £145,332,000; tramways £77,790,000; and banks £72,909,000.

CAUSES AND EFFECTS OF THIS WIDE DISTRIBUTION.

The wide geographical distribution of British investments, as shown in the table above, is worth studying. By far the largest sums have been invested in the United States, Canada, India, South Africa, Australia and Argentina; but more or less important amounts have been invested in practically every other country. On the whole, investments on the continent of Europe are small. Sir George Paish's figures show that for all European countries together the amount is less than £200,000,000, which is only about 5 per cent of the total investments. This has been a very fortunate circumstance for Great Britain in the present war, for it has meant that British investment interests in the principal area of disturbance have been small. The homeward flow of interest on investments in other quarters of the world has continued practically unhindered, while enemy states have not been able to put obstacles in the way of sales of securities to foreigners in payment for munitions and supplies. The cases of France and Germany have been very different. A large part of the foreign investments of both countries are in Europe, and especially in Russia. The suspension of most of the Russian export trade, as a result of the war, made it

difficult to effect payment of interest on capital invested there, and to some extent it has only been possible to obtain interest payments by making further advances. In the case of Germany, the utility of her investments in Russia was, of course, nil, and the same applies to the not inconsiderable investments made by Germans in the British colonies. No interest or dividends are paid to Germans during the war, and transfer to neutrals is stopped.

The causes of the wide distribution of British investments must be sought in the history of British trade relations and British colonial expansion. It was natural that trade should be directed largely to the colonies, which a common language and common institutions tended to draw close to the mother country. Despite political disagreements, identity of race and language has been a potent influence also in encouraging intercourse between Great Britain and the United States. The importance of the British mercantile marine also facilitated trade with other countries in distant parts of the world. Out of trade developed investment, and thus gradually was built up the imposing structure of British overseas investments.

THE DIFFERENT NATURE OF FRENCH AND GERMAN INVESTMENTS

Very different have been the circumstances of French and German investors. The development of France industrially and financially took place at a considerably later date than that of Great Britain, and the sums invested abroad at the outbreak of the present war were correspondingly smaller, amounting perhaps to £1,800,000,000. French overseas trade too has always been much smaller than that of Great Britain, while the course of events in the eighteenth century deprived her of most of her large colonies in Asia and America. The Frenchman, therefore, has exhibited a marked tendency to concentrate his investments in Europe, in Egypt, and in his North African colonies, though French interests in other parts, notably in South America, Mexico and the Transvaal, are considerable, and were, at any rate so far as concerns South America, growing in importance for some years before the war.

German investments abroad also began at a much later date than British investments, and have grown more slowly. At the outbreak of the present war they did not perhaps greatly exceed £1,-000,000,000 in amount, and were to some considerable extent offset

by investments in Germany on the part of foreigners. Germany, like France, had until recently no large field for investment in the colonies, and her overseas trade is quite a recent growth. Consequently Germans were inclined to make their investments in neighboring European countries rather than far afield. As in the case of French investments, an important part is represented by holdings of Russian bonds, railway and industrial securities. Germany also has important interests in Austria Hungary, Italy, Roumania and the Balkans. Though German investments are predominantly represented by European securities, German holdings of American railway and other bonds and stocks are (or at any rate were before the war) considerable in amount, as are also her holdings of South American stocks and South African mining securities.

There is another feature of British investments which may also most conveniently be indicated by contrasting it with French and German investments. This distinction depends upon the great differences which exist between countries in regard to the distribution of the ownership of capital among different classes. In Great Britain, the ownership of capital is distributed more unevenly than in either France or Germany. Investors represent a comparatively small section of the community. The control of large amounts of capital is thus vested in comparatively few hands. In Germany, and to an even greater extent in France, the small investor controls a relatively large part of the total capital available for investment. The French peasant is proverbial for his thrift and the number of accounts open at the savings banks and the entries in the Grande Livre of the French national debt alike testify to his financial importance.

It is difficult to form an opinion as to what has been the effect upon investment policy of the uneven distribution of the ownership of capital in Great Britain. No doubt concentration of capital in a few hands facilitates the promotion of large schemes of investment in distant parts of the world. The wealthy investor is, on the whole, better educated in financial affairs than the small investor, and it is probable that he is able to select his investments in distant fields with more discretion than the small investor, and to obtain a higher return on his capital without running undue risks. The characteristic of the small French investor is his caution; he prefers government securities or debentures yielding a low fixed

interest. On the other hand, the small British investor, whose psychology is different, is somewhat apt to allow himself to be carried away by golden promises and to lose his capital in speculative ventures. It must, of course, also be borne in mind that very large holdings of foreign securities are in the hands of banks, insurance, finance and trust companies, etc., which accumulate and control the capital of individuals, many of whom may be comparatively poor. Many millions of the American securities which have been sold in New York or deposited as collateral for loans with American bankers during the present war belonged to institutions of this kind.

THE EFFECTS OF THE WAR

In concluding this survey of British foreign investments a few words may perhaps be said about the future. The European war has wrought great changes in the sphere of investments, as in other spheres. From the point of view of Great Britain, the main factors have undoubtedly been the extensive realizations of the more liquid and saleable assets in various parts of the world and the vast loans which have been granted to the Allied governments. The principal result of the former movement has been a vast pouring back into the United States of American securities slowly accumulated during the past century. Of the latter movement, the details are less fully known, but it may safely be asserted that some hundreds of millions sterling withdrawn from the United States have been lent to Russia. No doubt the sums lent to the other Allied governments are considerably smaller.

It may be presumed that the amounts lent to the Allied governments will remain after the war as a debt due. It appears not unlikely, however, that the ownership of the debts due from the Allies will be transferred from the British government to individual investors by the issue of loans on the London capital market, the proceeds of which will be handed over to the British government. This, however, would be largely in the nature of a bookkeeping transaction from the national point of view. The opinion may further be hazarded that the war will have to a considerable extent a permanent influence upon the distribution of British investments. It appears certain that the financial position of America will be much strengthened both absolutely and relatively to other countries. Even before the war the United States was becoming less dependent

upon Europe for its supplies of capital, and was even investing abroad in Canada and in South America. The inference appears to be warranted that the British investor will not fully regain the position which he held in the United States before the war. Doubtless there will be a partial recovery both by the repurchase of American securities, and especially by the repayment of money borrowed upon collateral securities deposited in America, but it will probably not be complete. The future of the British investor in Canada and in South America appears to be better assured, although even in those fields there may be more competition from the United States than before the war.

Another effect which the war appears likely to exercise upon the distribution of British capital is to encourage investment in Russia. Doubtless Russia will for many years have to borrow in order to pay the interest on the huge debt which she will owe. It appears probable that British interest in Russia, increased by the war, will be widened to embrace a keen desire for the development of the country, resulting in extensive investments of British capital in Russian railways, municipal loans, mines, manufacturing industries, etc. The likelihood of such a movement appears to be enhanced by the fact that for some years before the present war the flow of British capital to Russia had been increasing.

With regard to the general question of the amount of British capital exported after the war, it does not seem likely that this will be permanently affected. The general conditions which have made Great Britain a creditor country will remain substantially unaltered. It is possible that the amount of capital exported may for a time be small as compared with what it was before the war, but there is no reason to doubt that the flow will sooner or later recommence in large volume. If, as there is cause to expect, new habits of economy and thrift have been acquired during the war by various sections of the population, it may well be that the accumulation of capital in Great Britain and the outflow for investment overseas will speedily attain new records.